Northampton Retail Market Analysis

Prepared for

The City of Northampton

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Executive Summary

The City of Northampton contracted with Karl F. Seidman Consulting Services to conduct a retail market analysis to help identify opportunities for future expansion of the city's retail base. This report presents the results of this analysis of demographic and economic data for the market areas served by Northampton retailers.

Market Area Demographic Profile and Spending

Northampton attracts customers from two market areas: (1) a primary market area consisting of Northampton, Easthampton, Hadley, Hatfield, South Hadley, Southampton, Westhampton and Williamsburg; and (2) a secondary market area that includes all of Franklin, Hampshire and Hampden Counties.

Northampton's primary market area includes 25,256 households with a total population of 63,498. Out of these 63,498 people, 46% live in Northampton, 27% live in South Hadley and the balance live in the remaining towns. The secondary trade area is almost ten times larger than the primary trade area, with 237,666 households and a total population of 616,516 individuals. The primary and secondary area populations have somewhat different demographic characteristics, as the primary market area population is slightly older, higher income, more educated and less racially diverse than residents of the secondary area. Both areas have average household incomes below the state level in 1999, but the primary area's average household income of $58,980 was 18% above that for the secondary market area ($50,066).

Primary area households had estimated total annual income of $1.665 billion dollars and total non-shelter expenditures of $989 million in 2001. After transportation, the largest spending categories were food at home ($114 million), food away from home ($75 million), and apparel and footwear ($70 million). Together, these three categories accounted for 35% of 2001 non-housing and transportation expenditures. The secondary market area, with $7.9 billion in total non-shelter 2001 spending, is eight times the size of the primary market.

Using several data sources, tourism spending in Northampton was estimated at $44 million during 2000, or 4.4% of the primary market area non-housing expenditures. However, tourists represent a much larger share of the primary trade area spending at eating and drinking establishments (14.8%), and may represent as much as 10% of the primary market demand for specialty, gift, clothing, and home furnishing stores.

Sales Gap Analysis

A sales gap analysis compared total consumer spending with estimated store sales to identify store types for which a large amount of spending occurs outside the primary and secondary market areas and strong expansion potential exists. This analysis revealed a sales gap for three store types in the **primary market area:** $19.6 million for Drug and Proprietary Stores, $27.7 million for Service Station and Auto Supply Stores, and $11.9 million for Apparel and Accessory Stores. However, these figures may overstate the true unmet market demand given competition from national brand apparel retailers at Holyoke's Ingleside Mall, the sizeable share of gas sales that occur away from home, and the impact of grocery and general merchandise stores on Drug Store sales. An analysis of the **secondary market area** identified a large sales gap for seven store categories, but three categories are convenience-oriented stores that Northampton cannot serve. The other four store groups and their sales gap are:

- Apparel and Accessory Stores, with an estimated gap of $153 million and capture rate of 52%;
- Auto Dealers for which the estimated gap is $293 million and the capture rate is 81%;
- General Merchandise Stores, with an estimated gap of $287 million, or 68%; and
- Book Stores, with an estimated gap of $22 million.

These results indicate that a market opportunity exists for expanded apparel and accessory stores, general merchandisers and book retailers if Northampton can attract significant spending from the secondary market area.

Comparative Analysis of Northampton's Retail Base

A final consideration in targeting retail expansion areas is Northampton's position versus competing retail centers across key store types. Northampton has the greatest capacity to expand stores for categories where a concentration of stores already exists to attract shoppers from a larger area and away from other destinations. It may also be able to grow or attract new stores where no one area has a dominant position, or where it can differentiate itself to draw certain customer niches. Major finding from the comparative analysis include:

- Northampton's largest concentration of establishments, relative to competing areas, is in auto dealers and restaurants. These are both comparison-goods stores that can draw customers from a large area;

- Northampton is also strong in food stores with the second largest number of grocers, but the highest level of sales and employment;

- Holyoke is the dominant center for apparel and general merchandising with over twice the number of stores and larger stores than the other centers;

- Northampton's stores are often the second largest in terms of employees for most categories with Holyoke usually the largest;

- Greenfield is an important Northampton competitor for auto dealers with the largest stores among the four centers;

- Hadley is an important competitor for electronics and appliances, hardware, lumber and garden products, and general merchandise, with several stores that are larger than those in Northampton;

- Northampton's strongest concentrations relative to Amherst, Greenfield and Hadley and, thus, its competitive advantages for Franklin and Hampshire County shoppers are in eating and drinking establishments, apparel and accessory stores and home furnishing stores;

- Compared to Holyoke, Northampton's strongest concentrations to attract Hampden County households lie in eating and drinking establishments, auto-related businesses, and lumber, hardware, and garden stores; and

- No dominant center exists for furniture and home furnishing stores as three to nine stores exist in each community, although Holyoke's stores are larger.

Summary Findings, Implications and Recommendations

Several key findings emerge from the demographic analysis of Northampton's market segments, the sales gap calculations, and the analysis of its economic composition and competition. These findings and their implication for future retail development and marketing strategies include:

- The primary market area represents a strong and desirable segment for Northampton. Customers in these communities are more affluent and better educated than secondary area residents and are likely to be attracted to the arts and cultural activities, quality shopping opportunities, and attractive environment in downtown Northampton;
- Spending patterns within the primary trade area also are well aligned with Northampton's retail strengths, especially in restaurants and food stores;
- The much larger secondary market area is nonetheless an important market for Northampton. Its strong demand for auto-related goods is a plus for Northampton while its preference for apparel and general merchandise stores suggest that growth among these retailers would help Northampton attract more of these shoppers;
- Tourists are not a large overall market but represent a sizable source of demand for restaurants, entertainment and specialty retailers;
- The Sales Gap Analysis and a comparative analysis of Northampton's retail base both indicate that apparel and accessory stores provide the best opportunity for retail expansion, with a sales gap for both the primary and secondary market; and
- Furniture and Home Furnishing is a second potential expansion opportunity since no strong existing destination exists, but it requires developing a cluster of stores to make Northampton a destination. Fairly large retail spaces are needed to accommodate large merchandise displays, particularly for furniture stores.

To build upon and confirm the findings from this report, it is recommended that Northampton undertake several further research tasks:

- Conduct a random telephone survey of primary and secondary market area households to better understand consumer perceptions of Northampton, determine variations in shopping by demographic traits and residency, identify ways to expand patronage, and test approaches to attract new consumers or more frequent shopping;
- Analyze the 2002 Economic Census data, scheduled for release in the second half of 2004, to update the analysis of Northampton's competitive position; and
- Conduct focus groups with key customer segments among both current shoppers and those targeted for market expansion, to better understand each group's perception of Northampton and test reactions to options aimed at attracting new consumers or increasing patronage.

Introduction

The City of Northampton, as part of its economic development planning activities, contracted with Karl F. Seidman Consulting Services to conduct a retail market analysis for Northampton. The purpose of the study is to identify opportunities for future expansion of the city's retail base through an analysis of demographic and economic data for the market areas served by Northampton retailers. This report presents the data analysis and resulting findings in five sections:

- Section 1 explains the primary and secondary market area geographies.
- Section 2 summarizes the demographic characteristics and spending patterns of the households within these trade areas along with estimated consumer spending for the tourist market.
- Section 3 presents a sales gap analysis that compares consumer expenditures to sales for different retail store categories.
- Section 4 compares Northampton's retail base to its main competing areas to identify key retail clusters and its competitive advantages vis-à-vis other retail centers.
- Section 5 summarizes the key findings and implications for Northampton's future retail marketing and development strategies.

Market Area Definition

Two information sources were used to define the market areas (also referred to as trade areas) served by Northampton retailers. First, a focus group was held with a diverse group of merchants to understand the geographic range of their customers. Second, data from a survey of Northampton shoppers conducted during October 2002 was used to determine the geographic boundaries of retail customers. Both sources indicated that Northampton serves two distinct market areas. The primary market area consists of Northampton and the neighboring communities of Easthampton, Hadley, Hatfield, South Hadley, Southampton, Westhampton and Williamsburg. According to the survey data, this area accounts for 43% of Northampton's customers and represents the core geography from which merchants attract regular customers. For convenience-oriented stores, such as grocery and hardware stores, the primary market accounts for almost their entire customer base, and in some cases, they largely draw from within Northampton itself. However, many retailers attract shoppers from a much larger secondary market area that includes all of Franklin, Hampshire and Hampden Counties, as was confirmed by both retailers and the survey data. While this secondary market area is quite large and includes several competing retail centers, a number of retailers indicated that they had regular customers within this larger geography extending to the eastern boundary of Hampshire County, Springfield and its suburbs, and north to the Vermont Border. Based on the October 2002 survey, over two-thirds of Northampton customers live in these three counties.

While Northampton also draws customers from beyond the secondary market area, including Connecticut, Berkshire County, and Vermont[1], it does not attract a significant share of regular shoppers from these areas, given their distance and shopping alternatives. Including

[1] Berkshire County, Connecticut, and Vermont represented 10.6% of the October 2002 survey respondents.

them in the secondary market area would therefore overstate the market area and spending potential available to support expanded retail development in Northampton.

Trade Area Demographic Profile and Spending Levels

The profile of primary and secondary area residents and households is based on data from the 2000 Census of Population and Housing. To determine the spending levels for different goods and services, data on spending patterns for northeast consumers by age cohort from the consumer expenditure survey was applied to adjusted 2000 Census figures for the aggregate income of each age group. These adjustments used more recent county income estimates to update the US Census to 2001. Estimates for household spending by store category were purchased from Claritas, a private data supplier. The Claritas data uses more recent estimates of population and income to estimate household spending and converts data on spending by products into spending for actual store types—a critical need to assess unmet retail demand. To avoid the double counting of spending in both market areas, the figures presented for the secondary market area exclude the primary market area.

Northampton's primary market area includes 25,256 households with a total population of 63,498. Out of these 63,498 people, 46% live in Northampton, 27% live in South Hadley and the balance live in the remaining towns. The secondary trade area is almost ten times larger than the primary trade area, with 237,666 households and a total population of 616,516 individuals.

The primary and secondary area populations have somewhat different demographic characteristics, with the primary market area population slightly older, higher income, and less racially diverse than residents of the secondary area. While both areas are overwhelmingly white (93% for the primary area population and 82% for the secondary area population), Blacks account for 6.4% of the secondary market area population compared to 1.4% of the primary area. Similarly, almost one in eight residents of the secondary market area identify themselves as Hispanic, compared to one in thirty for the primary area (See Table 1).

Table 1. Racial Composition of Northampton's Primary and Secondary Trade Area

	Primary Market		Secondary Market	
	Number	Percent	Number	Percent
White (single race)	58,883	92.7%	507,903	82.4%
Black (single race)	916	1.4%	39,277	6.4%
Asian (single race)	1,486	2.3%	10,020	1.6%
All Other Single Race	1,149	1.8%	44,562	7.2%
Two or More Races	1,064	1.7%	14,754	2.4%
Hispanic Origin, all races	2,022	3.2%	73,374	11.9%
TOTAL	63,498		616,516	

The primary trade area's population has a slightly older distribution than that of the secondary area. While 39.7% of the primary area's population is 45 or older, only 35.8% of the secondary market area is in this age group. The biggest difference is among 45 to 54 year olds, which represent 16.3% of the primary area residents but 13.7% of the secondary area population. On the other hand, the secondary market area has a higher share of youth, with 24.8% of its population under 18, compared to 19.1% for the primary area. While no single age group dominates the primary trade area, the largest adult cohorts are 35 to 44 and 45 to 54, with each accounting for 16.3% of the population.(See Figures 1 and 2).

Figure 1. Age Distribution of Primary Market Area Population

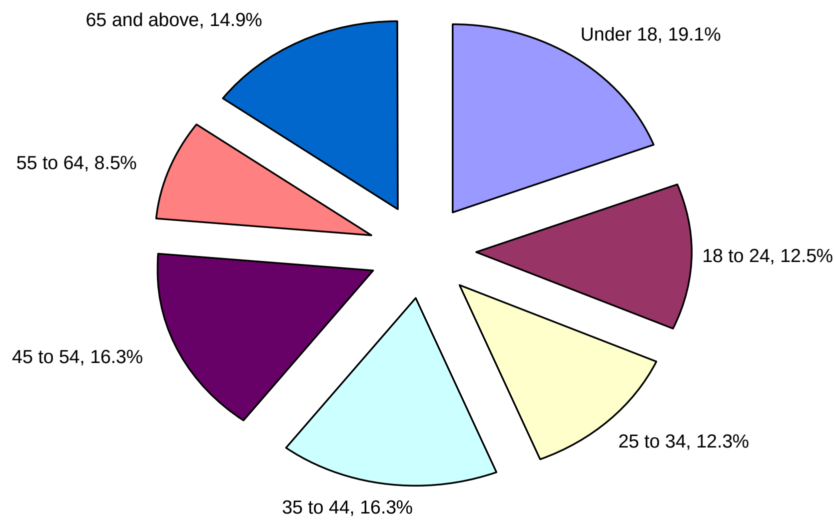
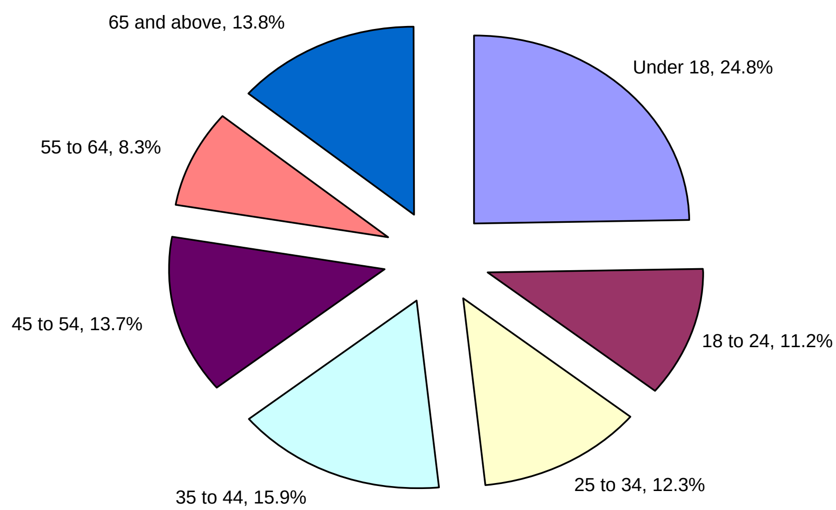


Figure 2. Age Distribution of Secondary Market Area Population



Both areas have average household incomes below the state level, but the primary market area exceeds the national average. The 1999 average household income was $56,664 and $66,365, for the US and Massachusetts, respectively. For the primary and secondary trade areas, 1999 average household income was $58,980 and $50,066, respectively. Therefore, the primary area's average household is above the average in the secondary area, and the nation, but below that for Massachusetts. One-quarter of the households in the primary market area have a household income above $75,000 while 19% of household incomes are below $20,000. Compared to the primary market area, the secondary market region has a higher share of households in the lowest income group (24.5%) and a smaller percent of households with

Figure 3. Income Distribution of Primary Market Area Households

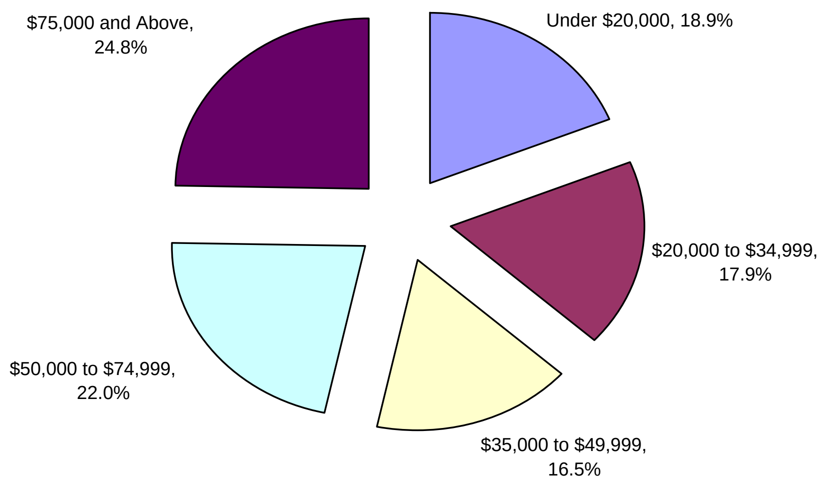
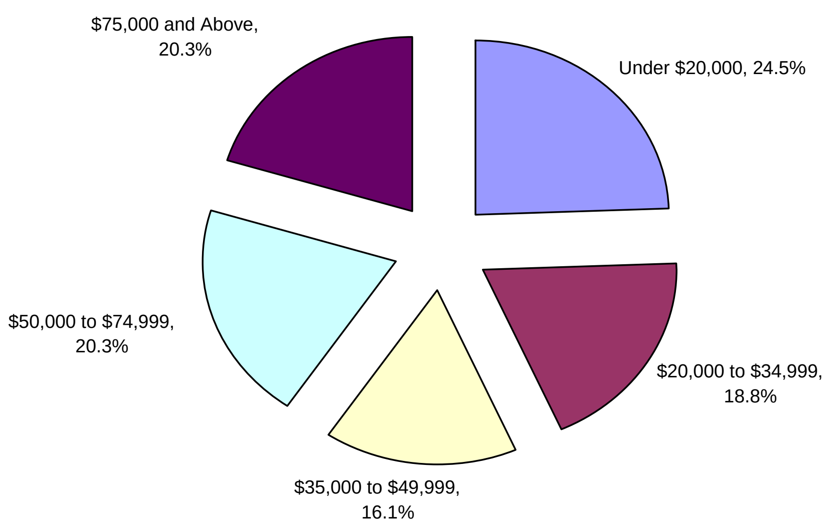


Figure 4. Income Distribution for Secondary Market Area Households



incomes above $75,000 (20.3%). The primary area has a slightly higher percentage of households in the middle three income categories.

Figure 5. Educational Attainment for Primary Market Area

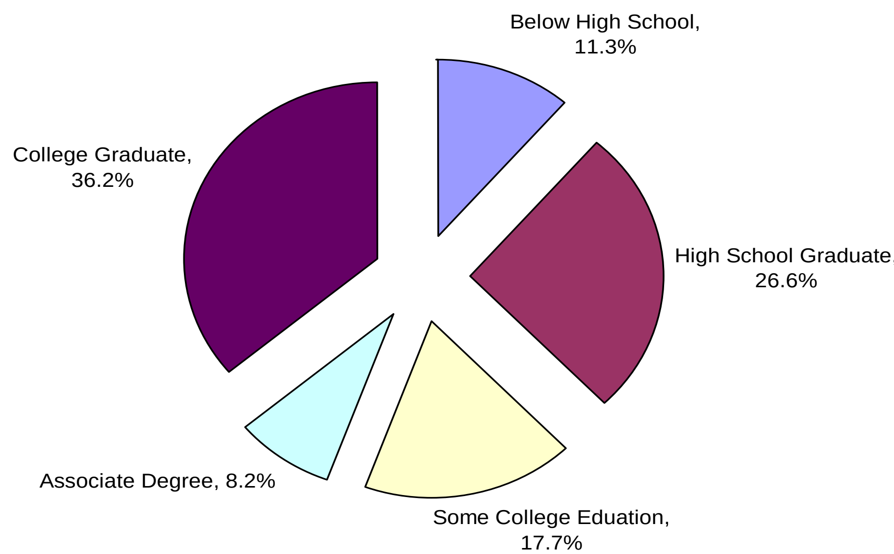
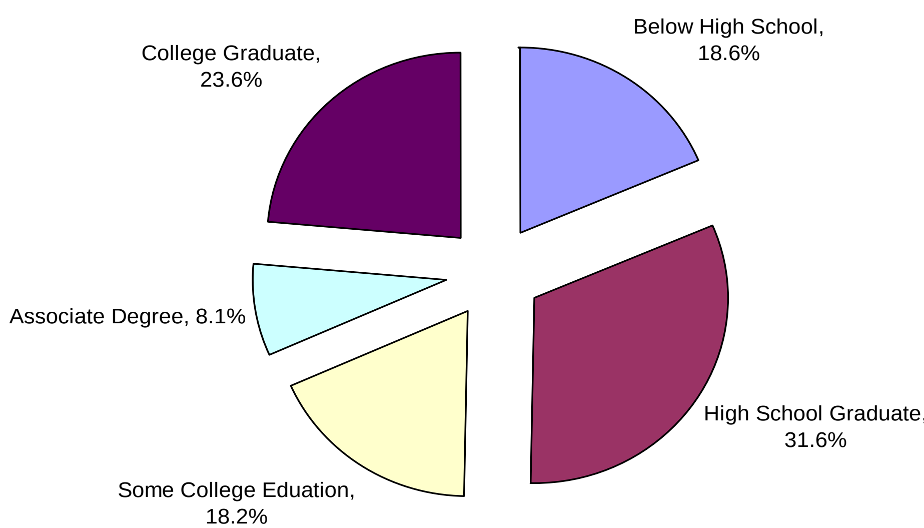


Figure 6. Educational Attainment for Secondary Market Area



The primary market area population has higher educational attainment than the secondary market area, and above that of Massachusetts. As shown in Figures 5 and 6, college graduates compose 36.2% of the primary market area population that is 25 years and older, well above the 23.6% share in the secondary market area. This level is also above the Massachusetts level of 33.2 %. Both areas have a similar share of residents with some college education and associate degrees, the secondary market areas has a majority of adults whose educational attainment does not exceed a high school degree (50.2%), compared to 37.9% for the primary market area.

Consumer Shopping Patterns

Primary area households had estimated total annual income of $1.665 billion dollars and total non-shelter expenditures of $989 million in 2001[2]. After transportation ($235 million), the largest spending categories were food at home ($114 million), food away from home ($75 million), and apparel and footwear ($70 million). Together, these three categories accounted for 35% of 2001 non-housing and transportation expenditures. The secondary market area, with its much larger population, has far greater consumer spending than the primary area. With $7.9 billion in total non-shelter 2001 spending, the secondary trade area is eight times the size of the primary market. While Northampton is unlikely to capture spending for convenience-oriented products such as grocery, personal care products, and drugs and medical supplies from the secondary trade area, it represents an important opportunity to attract more customers for comparison shopping categories, including food away from home, apparel and home furnishings.

Table 2. Primary and Secondary Trade Area 2001 Expenditures by Product Category

Product Category	Primary Area Expenditures ($000)	Primary Area Percentage	Secondary Area Expenditures ($000)	Secondary Area Percentage
Transportation	$235,367	23.8%	$1,882,419	23.8%
Food at home	$114,213	11.5%	$912,859	11.6%
Food away from home	$75,505	7.6%	$606,234	7.7%
Alcoholic beverages	$18,282	1.8%	$104,008	1.3%
Personal care products & services	$18,319	1.9%	$146,664	1.9%
Drugs and medical supplies	$17,577	1.8%	$142,094	1.8%
Apparel	$70,247	7.1%	$561,950	7.1%
Housekeeping supplies	$18,282	1.8%	$146,433	1.9%
Household textiles	$4,724	0.5%	$37,392	0.5%
Furniture	$12,031	1.2%	$95,894	1.2%
Appliance and electronics	$29,652	3.0%	$237,401	3.0%
Pet, toys, and reading	$16,867	1.7%	$134,167	1.7%
Reading alone	$6,060	0.6%	$48.338	0.6%
Total Non-Housing	$988,859	100.0%	$7,898,921	100.0%

Source: Consultant Calculations Based on data from the 2000 US Census and the 2000 to 2001 Consumer Expenditure Survey

Since households buy products in a variety of store types, it is useful to look at consumer spending by store categories rather than product category. This analysis is especially important

[2] 2001 income was estimated by applying the growth rate of Hampshire County income from 1999 to 2001 to 1999 income data on towns in the primary market area from the 2000 Census of Housing and Population.

since Northampton is interested in identifying which additional store types can be supported by the existing market. Table 3 presents Claritas' estimates of 2003 household spending in the primary and secondary market areas by major store types.

Table 3. Primary and Secondary Household Spending by Store Type, 2003

	Primary Market Area			Secondary Market Area		
Store Type	Total Spending ($000)	Percent of Total	Annual Per HHD	Total Spending ($000)	Percent of Total	Annual Per HHD
Apparel and Accessory Stores	$27,442	3.3%	$1,087	$289,672	4.1%	$1,219
Automotive Dealers	$118,443	14.1%	$4,690	$1,396,885	19.5%	$5,878
Automotive and Home Supply Stores	$7,767	0.9%	$308	$64,423	0.9%	$271
Drug and Proprietary Stores	$49,795	5.9%	$1,972	$345,159	4.8%	$1,452
Eating and Drinking Places	$99,806	11.9%	$3,952	$649,749	9.1%	$2,734
Food Stores	$163,700	19.5%	$6,482	$1,142,635	16.0%	$4,808
Furniture and Home Furnishings Stores	$12,345	1.5%	$489	$118,857	1.7%	$500
Home Appliance, Radio and TV Stores	$17,197	2.0%	$681	$146,190	2.0%	$615
Gas Service Stations	$60,040	7.1%	$2,377	$502,033	7.0%	$2,112
General Merchandise	$45,247	5.4%	$1,792	$842,923	11.8%	$3,547
Hardware, Lumber and Garden Stores	$54,372	6.5%	$2,153	$419,291	5.9%	$1,764
Total Retail Sales	$839,883	100.0%	$33,255	$7,148,641	100.0%	$30,079

Source: Claritas Retail Trade Potential Report

These estimates show considerable differences in spending across store types in the two market areas. Food stores represent the largest share of retail sales expenditures, at 20%, for the primary market area, but account for 16% for the secondary area purchases. On the other hand, secondary market area households spend more purchasing cars at auto dealers. Eating and drinking establishments account for the third largest share of consumer spending in the primary trade area while secondary area households spend far more in general merchandise stores.

Differences between primary and secondary market consumers are most evident in the spending levels per household. The average primary area household spends more at seven of the 11 store categories, with the largest differences among food stores, eating and drinking places, and drug stores. Average primary market household expenditures exceed those in the secondary market area by 45% at food stores, over one-third at both drug stores and restaurants, and by 22% for hardware, lumber and garden stores. Secondary market households, on average, spend twice as much at general merchandise stores than do primary market consumers, 25% more at auto dealers and 12% more at apparel and accessory stores.

Tourist Retail Spending

The Massachusetts Office of Tourism and Travel (MOTT) collects data and sponsors studies on the impact of tourism on the Massachusetts economy. Since this data is for the entire state and region, it does not directly indicate the level and mix of tourist spending in

Northampton. However, by combining county data on aggregate tourism spending and hotel tax receipts with statewide figures on spending patterns, an estimate of tourism spending for restaurants and retail goods in Hampshire County and Northampton was prepared. According to the MOTT report, *The Economic Impact of Tourism on Massachusetts Counties 2001*, tourists spent $74.3 million in Hampshire County in 2000. Based on state Rooms Occupancy Tax collections for Hampshire County, $14.1 million of these expenditures were for lodging, which left $60.2 million for other purchases. Data on statewide tourist spending was then used to distribute the remaining $60 million among different spending categories.[3] This resulted in the following annual countywide tourism expenditures estimates: $25 million for food; $14.5 million for auto transportation; $8.2 million for entertainment; and $12.3 million in retail purchases (See Table 4). Since Northampton is Hampshire County's primary tourism destination and has the county's largest concentration of lodging, restaurants, and retail stores, it probably receives much of countywide tourism spending. Northampton's share of county tourism spending was estimated by applying Northampton's share of county lodging revenue reported in the *1997 Economic Census on Accommodation and Food Service* (58.6%) to all spending categories.

Table 4. Estimated 2000 Tourism Expenditures in Hampshire County and Northampton

Spending Category	Hampshire County	Northampton
Lodging	$14,122,807	$8,282,182
Auto Transportation	$14,500,294	$8,503,555
Foodservice	$25,149,887	$14,748,905
Entertainment	$8,242,905	$4,833,971
Retail	$12,274,107	$7,198,030
Total	$74,290,000	$43,566,645

Source: Consultant Calculations from MOTT Data

These estimates indicate that tourists are a $44 million market for Northampton, or 4.4% of the primary market area non-housing expenditures. However, tourists represent a much larger share of primary trade area spending at eating and drinking establishment, at 14.8%. Similarly, tourists' retail purchases are concentrated in discretionary items such as clothing, home furnishing, and gifts, and thus the probably represent a significant share of spending for these or other specialty stores. Since primary market area spending at clothing and home furnishing stores is just under $40 million, and another $31 million is spent on miscellaneous items such as gifts, the estimated $7.2 million in annual retail purchases by tourists may represent as much as 10% of the Northampton market for specialty gift, clothing, and home furnishing stores.

Sales Gap Analysis

The sales gap analysis seeks to identify retail sectors with strong expansion potential based on a low share of total spending currently captured by Northampton businesses. It is important to recognize that this analysis is imperfect because the data used in the analysis is estimated, with the tourism spending in particular based on statewide patterns that may not accurately reflect the preferences of local tourists. Second, the retail sales figures are for all

[3] These calculations were based on the share of non-lodging and non-public transportation statewide tourism spending in each category.

stores within Northampton's market areas, but some of these stores serve different trade areas. Thus, there is not a perfect match between the demand side and supply geographies. To the extent that stores close to the boundaries of the market areas draw significant sales from outside Northampton's market areas, the sales gap estimates may underestimate unmet market demand for stores in Northampton. Nonetheless, the sales gap analysis is still useful in identifying target retail sectors with growth potential either where Northampton is capturing a small share of spending or where a sizable dollar level of unmet demand exists.

The results from the sales gap analysis are presented in Table 5 and Figure 7. Estimated total annual spending for each store type is the combined annual spending from households in the primary market area and tourists. The primary market area was used for this analysis since it is the city's core market that must support new retail stores. Annual sales are total sales for all stores within the primary trade area, both within and outside Northampton. The sales gap is the difference between total annual consumer spending and stores sales, which is the dollar amount of sales that primary market area households spend at stores outside this eight-community area. The spending capture rate is the percentage of total spending by primary market households and Northampton tourists that is spent at stores beyond the primary market area.

According to the sales gap analysis, unmet demand exists in the primary market area for three store types:

- **Drug and Proprietary Stores, for which the estimated gap is $19.6 million and the capture rate is 41%;**
- **Service Station and Auto Supply Stores, for which the estimated gap is $27.7 million and the capture rate is 64%; and**
- **Apparel and Accessory Stores, for which the estimated gap is $11.9 million and the capture rate is 60%.**

Table 5. Northampton Sales Gap Analysis Primary Market Area[4]

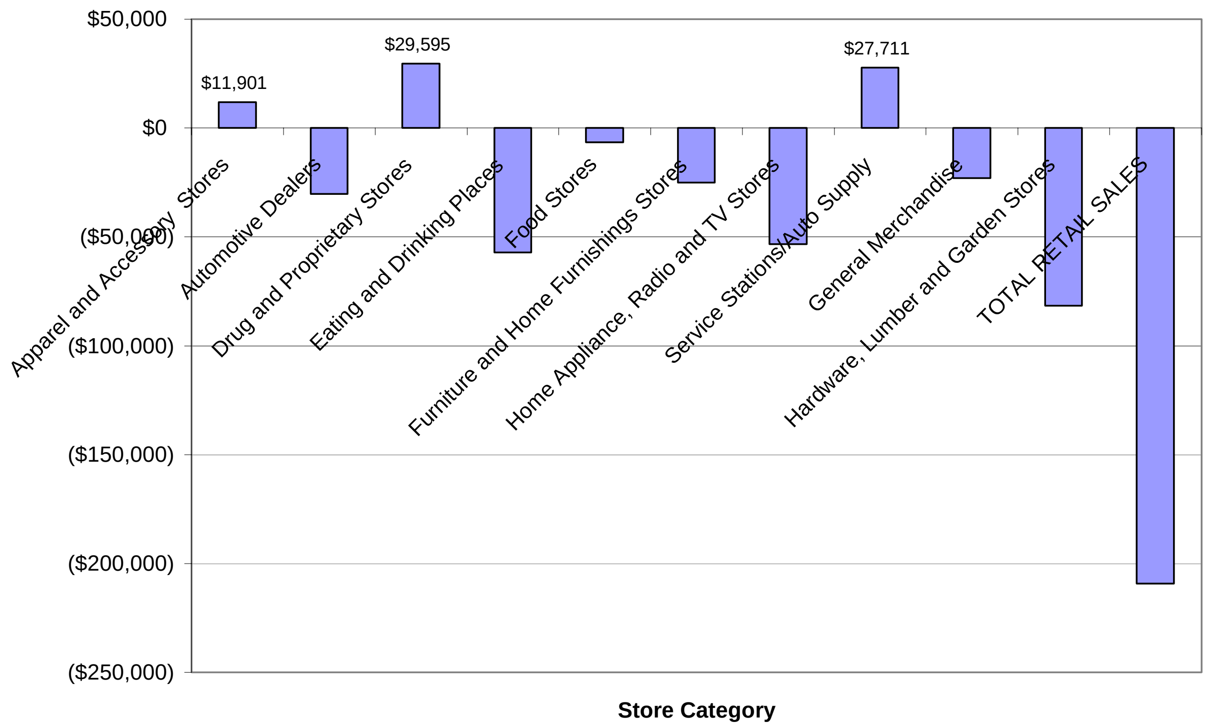
Store Type	Estimated Total Annual Spending ($000)	Estimated Annual Sales ($000)	Sales Gap ($000)	Spending Capture Rate
Apparel and Accessory Stores	**$29,601**	**$17,700**	**$11,901**	**60%**
Automotive Dealers	$118,443	$148,700	($30,257)	126%
Drug and Proprietary Stores	**$49,795**	**$20,200**	**$29,595**	**41%**
Eating and Drinking Places	$114,555	$171,800	($57,245)	150%
Food Stores	$163,700	$170,200	($6,500)	104%
Furniture and Home Furnishings Stores	$13,785	$38,900	($25,115)	282%
Home Appliance, Radio and TV Stores	$17,197	$70,500	($53,303)	410%
Service Stations/Auto Supply	**$76,311**	**$48,600**	**$27,711**	**64%**
General Merchandise	$47,047	$70,000	($22,953)	149%
Hardware, Lumber and Garden Stores	$54,372	$136,000	($81,628)	250%
TOTAL RETAIL SALES	$870,333	$1,079,500	($209,167)	124%

Source: Consultant calculations from Claritas, US Consumer Expenditure Survey, University of Vermont data.

[4] The following tourism spending is included in the estimated total spending, as follows, for four store categories: Apparel and Accessory Stores at $2,159,000 (30% of tourist retail purchases); Eating and Drinking Establishments $14,749,000 ; General Merchandise $1,800,000 (25% of tourist retail purchases); Service Stations/Auto $8,504,000; and Home Furnishings $1,440,000 (20% tourist retail purchases).

Among these three options, apparel and accessory stores are the best fit with the character and retail focus of downtown Northampton, while drug and auto-related businesses are more

Figure 7. Northampton Sales Gap Analysis



suitable for King Street. The sales gap results, however, do not provide a compelling case that unmet market demand exists for these stores. The 60% capture rate for apparel and accessory stores is a fairly high capture rate, especially the competition for national brand retailers at Holyoke's Ingleside mall. Similarly, the capacity to expand sale for gas stations and auto supply is limited since a sizable share of gas sales occur away from home. While the estimated sales gap for Drug and Proprietary Stores is quite large, Northampton already has five such stores and many products carried in drug stores are available in grocery and general merchandise stores. Thus, the sales gap figure may indicate an error in estimating the share of demand going to drug stores versus other stores, rather than unmet demand.

Although Claritas data does not estimate consumer spending for book stores, it is possible to assess their primary market area sales gap based on the product-based consumer spending data from Table 2. Estimated spending for reading materials is $6.1 million compared to Claritas' projected primary area book store sales of $6 million. Since this estimate does not directly account for the high share of college graduates in the primary market area, actual spending on reading materials is likely higher. On the other hand, a significant portion of this spending probably goes to non-local stores, such as internet book retailers. Consequently, a sales gap for book stores does not appear to exist within Northampton's primary market area.

It is noteworthy that estimated sales exceed spending for most store categories and for overall retail sales. This result demonstrates that Northampton, and stores in neighboring communities, rely on the secondary market area for a significant share of their sales. Home-related products, including home-furnishing, appliances and electronics, and lumber, hardware, and garden stores rely most heavily on customers from outside the primary market; the secondary market area appears to account for the bulk of their sales. This suggests the home-related products are an important local retail strength that Northampton may want to further develop. Eating and drinking establishments “import” the second largest amount of spending, with estimated sales exceeding the primary market area and tourist spending by $57 million.

Table 6. Sales Gap Analysis for Secondary Market Area

Store Type	Estimated Total Annual Spending ($ 000)	Estimated Annual Sales ($000)	Sales Gap ($000)	Spending Capture Rate
Apparel and Accessory Stores	**$317,114**	**$163,900**	**$153,214**	**51.7%**
Automotive Dealers	**$1,515,328**	**$1,222,300**	**$293,028**	**80.7%**
Drug and Proprietary Stores	$394,954	$231,000	$163,954	58.5%
Eating and Drinking Places	$749,555	$1,065,500	-$315,945	142.2%
Food Stores	$1,306,335	$1,021,000	$285,335	78.2%
Furniture and Home Furnishings Stores	$131,202	$197,700	-$66,498	150.7%
Home Appliance, Radio and TV Stores	$163,387	$388,000	-$224,613	237.5%
Service Stations/Auto Supply	$634,263	$372,900	$261,363	58.8%
General Merchandise	**$888,170**	**$601,000**	**$287,170**	**67.7%**
Hardware, Lumber and Garden Stores	$473,663	$847,000	-$373,337	178.8%
TOTAL RETAIL SALES	$7,988,524	$7,720,900	$267,624	96.6%

Given Northampton’s strong reliance on the secondary market for retail sales, the sales gap analysis also needs to consider unmet consumer demand in this larger three county area. Table 6 presents the combined estimated household spending, annual sales and the projected sales gap for Franklin, Hampden, and Hampshire counties. The results show a large sales gap and unmet demand for six store categories. However, three categories are convenience-oriented stores where Northampton cannot fill the gap. A separate analysis of book stores also indicated a large sale gap. Thus, a sales gap that Northampton can potentially address exists in the following four store types:

- **Apparel and Accessory Stores, for which the estimated gap is $153 million and the capture rate is 52%;**
- **Auto Dealers where the estimated gap is $293 million and the capture rate is 81%;**
- **General Merchandise, where the estimated gap is $287 million, or 68%; and**
- **Book Stores, with an estimated gap of $22 million**

These results confirm that a market opportunity exists for expanded apparel and accessory stores that can draw upon consumer demand in both the primary and secondary market. It also suggests that a large general merchandise store in Northampton has potential to attract significant spending from the secondary market area. The book store sales gap is based on comparing Table 2 estimated spending on reading materials ($48.3 million) to the Claritas figure of $26.3 million in secondary market area book store sales. The resulting $22 million gap is probably high since some spending on reading materials goes to internet-based retailers and general merchandise stores and secondary market area demand may be less than projected due to the low share of college graduates. Still, the size of the gap suggests an opportunity for additional book stores to serve secondary market area demand. Interestingly, a large negative sales gap was estimated for the same three home-related store groups, as was found in the primary trade area. This may indicate considerable cross-border shopping from Connecticut, excess retail capacity, or sales estimation errors in the Claritas data.

Comparative Analysis of Northampton

A final consideration in targeting retail expansion areas is Northampton's position versus competing retail centers across key store types. For comparison goods, Northampton has the greatest capacity to expand stores categories where a concentration of stores already exists to attract shoppers from a larger area and away from other destinations. It may also be able to grow or attract new stores where no one area has a dominant position, or where it can differentiate itself to draw certain customer niches. Tables 7 and 9 present comparative 2001 data on the number and concentration of stores in major retail categories for Northampton and its main competing areas of Amherst, Greenfield, Hadley and Holyoke. Table 8 lists total sales by store category from the 1997 US Economic Census, but omits Hadley since no data on this community was supplied in this census report. While the 1997 figures are outdated and need to be interpreted cautiously, they provide the only direct measure of actual sales levels. **This data shows that Northampton is the region's second largest retail center behind Holyoke and exceeds all four areas in the number of auto dealers and eating and drinking establishments.** Several key observations from this comparative data include:

- Northampton's largest concentration of establishments, relative to competing areas, is in auto dealers and restaurants. These are both comparison-goods stores that can draw customers from a large area;
- Northampton is also strong in food stores with the second largest number of grocers, but the highest level of sales and employment;
- Holyoke is the dominant center for apparel with over twice the number of stores as Northampton, three times its 1997 sales level, and larger stores based on employment;
- Northampton's stores are often the second largest in terms of employees for most categories, with Holyoke usually the largest;
- Greenfield is an important Northampton competitor for auto dealers, with the largest stores among the four centers;
- Hadley is an important competitor to Northampton for electronic and appliance goods, hardware, lumber and garden products, and general merchandise, with a good number of stores that are larger than those in Northampton;
- Hardware, lumber and garden stores are most equally distributed among the five centers, but stores in Amherst, Greenfield and Hadley are larger;
- Northampton is well-positioned versus Greenfield and Amherst in apparel with four times as many shops and slightly larger stores. It also has twice the number of apparel stores as Hadley;
- There is no dominant center for furniture and home furnishing stores, as three to nine stores exist in each community, although Holyoke's stores are larger; and
- Holyoke dominates general merchandising with ten stores that average over 140 employees.

Location quotients presented in Table 10 confirm Northampton's strongest retail concentrations are in auto dealers, eating and drinking establishment, and food and beverage stores. Location quotients are a ratio of a sector's share of total economic activity in a sub-region relative to the sector's share in a larger economic region. For this analysis, we compared each sector's employment as a percent of total jobs in each city or town to the same sector's share of total employment for Massachusetts. A location quotient greater than one means that the sector represents a greater share of sales for the city/town than for the overall state, and thus is concentrated in that locality relative to the state. A higher location quotient indicates a higher degree of concentration. Since all five areas are retail centers, it is not surprising to find location quotients greater than 1 in many categories. Therefore, the relative size of location quotients across the five centers is more significant than their absolute size. Moreover, Hadley's high location quotients are somewhat misleading since they partly reflect a limited employment base outside the retail sector. Despite having the highest location quotients for most store types, Hadley only ranks first in total employment for Hardware, Lumber and Garden stores. Several new findings emerge from analyzing Northampton's location quotients:

- Eating and drinking establishments is the only category where Northampton has the highest location quotient;
- Greenfield has the highest concentration of auto dealers and auto businesses and may represent strong competition in this industry;
- Greenfield is a retail center in many categories and thus may represent stronger competition for Franklin County customers than the store counts in many individual categories indicate since it offers a convenience advantage;
- Hadley's larger stores in several retail areas also may make it a convenient shopping destination for Hampshire County residents, especially for comparison goods.
- Holyoke is the strongest retail center with very large concentration in apparel, electronics and appliances and general merchandise.
- Northampton's strongest concentrations relative to Amherst, Greenfield and Hadley and, thus, its competitive advantages for Franklin and Hampshire County shoppers are in eating and drinking establishments, apparel and accessory, and home furnishing.
- Compared to Holyoke and for Hampden County households, Northampton's strongest concentrations and advantages lie in eating and drinking establishments, auto-related businesses, and lumber, hardware, and garden stores.

Table 7. Number of Establishments by Store Type for Northampton and Competing Business Centers, 2001

Store Category	Northampton Firms	Northampton Employees	Amherst Firms	Amherst Employees	Greenfield Firms	Greenfield Employees	Hadley Firms	Hadley Employees	Holyoke Firms	Holyoke Employees
Apparel and Accessory Stores	23	188	6	36	6	37	11	163	60	913
Automotive Dealers, Parts and Service Stations	33	442	8	107	23	482	7	28	25	265
Drug and Personal Care	5	77	c	c	3	83	c	c	4	82
Eating and Drinking Places	86	1,528	60	989	46	779	27	489	82	1,635
Food Stores	23	708	11	385	14	676	6	446	27	504
Furniture and Home Furnishings Stores	9	68	5	19	6	37	3	14	9	120
Electronics and Appliance Stores	13	77	8	46	9	65	10	159	16	339
General Merchandise	c	c	c	c	4	221	4	312	10	1,435
Hardware, Lumber and Garden Stores	6	40	6	82	9	123	8	92	6	30
Miscellaneous Shopping Goods	33	201	15	177	17	126	22	202	43	721
Total Retail and Restaurants	271	3,740	142	2,056	159	2,756	111	2,012	323	6,414
Total Employment		17,754		13,044		10,522		4,333		24,060

Source: Massachusetts Department of Employment and Training ES-202 Data Series, c=confidential data

Table 8. Sales by Store Type for Northampton and Competing Business Centers, 1997

Store Category	Northampton ($000)	Amherst ($000)	Greenfield ($000)	Holyoke ($000)
Apparel and Accessory Stores	$20,515	$3,413	$9,143	$67,986
Automotive Dealers, Parts and Service Stations	$152,488	$13,569c		$116,272
Drug and Personal Care	$18,063c		$14,810	$20,580
Eating and Drinking Places	$49,054c	c	c	
Limited Service Restaurants	$17,731	$9,330	$7,951	$15,636
Food Stores	$88,210	$4,705	$75,904	$50,215
Furniture and Home Furnishings Stores	$6,486	$1,006		$8,842
Electronics and Appliance Stores	$12,401c		$2,297	$2,641
Hardware, Lumber and Garden Stores	$28,232	$9,291	$29,623	$10,411
Sporting Goods, Hobby, Music and Book Stores	$12,247	$9,384	$4,261	$15,992
Total Retail (excluding eating and drinking places)	$379,955	$91,042	$278,676	$451,310

Source: 1997 US Economic Census, Hadley is omitted due to the absence of data

Table 9. Location Quotients for Northampton and Competing Business Centers, 2001

Store Category	Northampton	Amherst	Greenfield	Hadley	Holyoke
Apparel and Accessory Stores	0.88	0.23	0.29	3.14	3.16
Automotive Dealers, Parts and Service Stations	1.77	0.58	3.26	0.46	0.78
Drug and Personal Care	0.64		1.16		0.50
Eating and Drinking Places	1.39	1.22	1.19	1.82	1.10
Food Stores	1.38	1.02	2.22	3.55	0.72
Furniture and Home Furnishings Stores	0.85	0.32	0.78	0.72	1.10
Electronics and Appliance Stores	1.11	0.90	1.58	9.39	3.60
General Merchandise			1.58	5.42	4.49
Hardware, Lumber and Garden Stores	0.33	0.92	1.71	3.10	0.18
Miscellaneous Shopping Goods	1.08	1.29	1.14	4.45	2.86
Total Retail and Restaurants	1.21	0.90	1.50	2.66	1.53

Source: Consultant's Calculations from 2001 ES-202 Data

Summary of Key Findings, Implications, and Recommendations

Several key findings emerge from the demographic analysis of Northampton's market segments, the sales gap calculations, and the analysis of its economic composition and competition. These findings and their implication for future retail development and marketing strategies include:

- The primary market area represents a strong and desirable segment for Northampton. Customers in these communities are more affluent and better educated than secondary area residents and are likely to be attracted to the arts and cultural activities, higher quality shopping opportunities, and the attractive environment offered by downtown Northampton;

- Spending patterns within the primary trade area also are well aligned with Northampton's retail strengths, especially in restaurants and food stores;

- The secondary market area, due to its size, is nonetheless an important market for Northampton. Its strong interest in auto-related purchases is a plus for Northampton; its preference for apparel and general merchandise stores suggest that growth in these areas would help Northampton attract more of these shoppers. Secondary market area communities with income and education profiles similar to the primary trade area are the strongest targets;

- Tourists are not a large overall market but represent a sizable source of demand for restaurants, entertainment and specialty retailers;

- The Sales Gap Analysis and a comparative analysis of Northampton's retail base both indicate that apparel and accessory stores provide the best opportunity for retail expansion, with a sales gap for both the primary and secondary market;

- Furniture and Home Furnishing presents a second potential expansion opportunity since no strong existing destination exists, but it requires developing a cluster of stores to make Northampton a destination. Fairly large retail spaces are needed to accommodate the large merchandise displays, particularly for furniture stores;

- While some data suggest the potential for additional drug stores and general merchandise stores, a more careful analysis is needed to confirm this possibility;

- Northampton's is the regional second largest retail center with strength is both convenience and comparison-shopping goods. Its strong retail areas are auto dealers, eating and drinking establishments, and food stores; and

- Within Franklin and Hampshire County, Northampton has a strong position in apparel and home furnishing that provides a platform for expanding these two retail categories and targeted marketing initiatives.

To build upon and confirm the findings from this report, which are based on secondary data analysis, it is recommended that Northampton undertake the following additional research tasks:

- Conduct a random telephone survey of primary and secondary market area households to better understand consumer perceptions of Northampton, determine variations in shopping by demographic traits and residency, identify ways to expand patronage, and test approaches to attract new consumers or more frequent shopping;

- Analyze the 2002 Economic Census data, scheduled for release in the second half of 2004, to update the analysis of Northampton's competitive position; and

- Conduct focus groups with key customer segments among both current shoppers and those targeted for market expansion, to better understand each group's perception of Northampton and test reactions to options aimed at attracting new consumers or increasing patronage.